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# Caribbean Basin Initiative

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Background: The Caribbean Basin includes some two dozen small developing countries in Central America, the Caribbean, and northern South America. They have been seriously affected by imported oil's nearly threefold price increase in 1979-80 and by declining prices for their primary exports such as sugar, coffee, and bauxite. This imbalance has exacerbated the region's deeply rooted structural problems and caused declining economic growth, high unemployment, capital flight, enormous balance-of-payments deficits, crippling shortages of investment capital, and serious inflation.

US interests: The Caribbean Basin forms the third border of the US, contains vital sealanes through which 50% of our total trade flows, is an important market for US exports, and is the second largest source of illegal immigration to the US. We have basic humanitarian and strategic interests in preventing this region's political and economic collapse. The economic crisis threatens political and social stability and creates conditions that Cuba and others seek to exploit through terrorism and subversion. If the economic problems are not resolved, an increase in illegal immigration to the US could occur. It is not in our interest that a major border of the world's richest nation consist largely of hostile states, among which are some of the world's poorest countries.

Development of the initiative: The US has been developing its response to the region's economic crisis in close consultation with other donor countries and potential recipients. In July 1981, the US, Canada, Mexico, and Venezuela agreed to develop and coordinate a regional program. Colombia subsequently associated itself with this donor group and began substantial new assistance programs in the basin. Venezuela and Mexico already are making a significant contribution, particularly through their joint oil facility, and Canada has announced major increases in its foreign assistance to the region. Other donors, including the Europeans, Japanese, and international financial institutions, also are expanding their efforts.

US program: The proposed US program consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance. Congress has approved the financial portion of the program but has not yet completed action on the trade and investment portions.

The centerpiece of the program is the offer of one-way free trade. The countries of the region already are afforded liberal entry into the US market, but some of the remaining duties are in sectors of special interest to the basin countries. The President has requested congressional authority to eliminate, for a 12-year period, duties on all imports from the basin except textiles and apparel. International textile trade is governed by a "multi-fiber arrangement." The US

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Government intends to allow a more favorable access for Caribbean Basin textile products, on a case-by-case basis and within the context of overall Administration textile policy. Sugar imports will receive duty-free treatment but will be subject to quotas when necessary to protect the US domestic sugar price support program. A safeguards mechanism will be available to any US industry seriously injured by increased basin imports.

The President also is seeking congressional authorization to extend the 10% domestic investment tax credit to investments in basin countries for a period of 5 years. Under existing authorities, the Administration already is working to strengthen the investment climate and productive base in these countries by activities ranging from negotiation of bilateral investment treaties to increased technical assistance in helping Caribbean Basin exporters meet our stringent health and sanitary standards.

While the economic benefits of the trade and investment incentives are long term, these offers represent a major US political commitment that will have an immediate impact in Caribbean Basin countries. Unimpeded access to the enormous US market will provide a continuous spur to investment, innovation, and risk taking. The trade and investment incentives also will strongly encourage sound internal economic policies.

<u>Economic aid</u>: Recently Congress approved the President's request for an FY 1982 supplemental appropriation of $350 million to provide emergency economic assistance for countries in which the private sectors are threatened by lack of foreign exchange. Total FY 1982 economic assistance is $827.6 million, or $408 million above FY 1981. The Administration's request of $674.5 million in FY 1983 is also a significant increase over the regular FY 1982 appropriation.

The FY 1982 supplemental appropriation will provide desperately needed foreign exchange to the private sector in beneficiary countries. Other assistance programs have a longer term focus and are designed to increase investment, production, exports, and employment.

<u>Role of Puerto Rico and the US Virgin Islands</u>: The US Government has consulted closely about the Caribbean Basin initiative with Puerto Rico and the Virgin Islands, whose involvement will be critical to the success of private sector development strategies. Legislation under the initiative reflects their interests in important ways. Federal excise taxes on all imported rum will be rebated to Puerto Rico and the Virgin Islands, and their industries will share the same safeguards provisions as mainland industries. Moreover, Puerto Rican and Virgin Islands production will be considered as Caribbean under the rule of origin requirements for duty-free treatment to encourage the region's manufacturers to use Puerto Rican and Virgin Islands products.

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